



COMMISSION NEWS

ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

TO: EDITORS, NEWS DIRECTORS
FOR: IMMEDIATE RELEASE

DATE: 12/5/00
CONTACT: Heather Murphy (602) 542-0844

INVESTOR ALERT: CAUTION URGED IN PURCHASE OF BANK CDs SOLD BY BROKERS

PHOENIX – The Arizona Corporation Commission’s Securities Division is warning the public about investing in long-term certificates of deposit (CDs) that may be redeemed or “called” by the issuing bank if interest rates fall.

Recently, several brokers have blanketed Arizona with ads, phone calls and e-mails saying that they have negotiated great deals on federally insured CDs that provide higher returns than those issued by local banks. These brokers often direct their sales efforts toward older investors or others who are seeking the safety of federally-insured CDs. Although the CDs may be FDIC-insured, they carry special risks that some brokers are not disclosing to their clients. These features may include the fact that the CD will not mature for 15 or 20 years, the interest rate may be reduced after one year, and that liquidating the CD before it matures may result in the loss of principal.

Some brokers tell investors that if they need their money before the CD matures, the firm will purchase CD without an early withdrawal penalty. While this feature may sound attractive, the buy-back probably means that the broker will attempt to find someone else to purchase the CD at the going market rate. If interest rates on new CDs have increased, the CD will be sold at a discount. The discount may result in a greater loss than an early withdrawal penalty, perhaps even resulting in a loss of the principal as well as interest.

Mark Sendrow, the Director of the Corporation Commission’s Securities Division, has issued a Director’s Message detailing the problems related to brokered CDs as well as advice on how investors can

make informed decisions when purchasing brokered CDs. The Director's Message is posted on the Securities Division web site at www.ccsd.cc.state.az.us. Sendrow also encourages the public to contact the Securities Division at (602) 542-4242 and toll free at 1-877-811-3878.

###